

VZCZCXRO9887
PP RUEHCHI RUEHCN RUEHDT RUEHHM
DE RUEHJA #2096/01 3181135
ZNR UUUUU ZZH
P 131135Z NOV 08
FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC PRIORITY 0640
INFO RUEHJS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 JAKARTA 002096

SENSITIVE
SIPDIS

DEPARTMENT FOR EAP/MTS, EAP/EP, EEB/IFD/OMA, EEB/IFD/OIA,
EEB/ESC/IEC/ENR, EEB/CBA
DEPARTMENT PASS SECURITIES AND EXCHANGE COMMISSION
TREASURY FOR T. RAND
COMMERCE FOR 4430 BERLINGUETTE/KELLY
SINGAPORE FOR S. BAKER
ENERGY FOR PI-32 CUTLER/GILLESPIE

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ENRG](#) [EMIN](#) [EINV](#) [ID](#)
SUBJECT: THE BAKRIE GROUP: BUMI SHARE PRICE PLUNGES AS
TRADING RESUMES

REF: JAKARTA 1987

11. (SBU) Summary: On November 6, trading resumed in shares of Bakrie Group-owned PT Bumi Resources ("Bumi"), suspended since October 7. The share price immediately fell nearly 10% until automatic trading limits kicked in and trading was suspended for the day. Bumi shares met the same fate on the next five trading days, with the share price falling from IDR 2175 to IDR 1180. Press reports have detailed internal government of Indonesia wrangling over the decision to resume trading, including the reported threatened resignation of Finance Minister Sri Mulyani Indrawati, who favored resumption. Trading resumption indicates that those in the government who may have tried to protect Bakrie interests were unable to continue shielding those interests in the face of growing pressures from regulators and the investing public for whom the continued suspension was growing increasingly difficult. Analysts viewed trading resumption as a win for financial regulators against interested politicians. It is not clear whether resumption of trading in Bumi shares will affect a reported \$1.3 billion offer to purchase Bakrie & Brothers' 35% stake in Bumi, made by Northstar Pacific Partners, an Indonesian private equity firm affiliated with U.S.-based private investment firm Texas Pacific Group (TPG). Despite continued doubts regarding the Bakrie Group's financial difficulties and Bumi's ultimate disposition, its large thermal coal resources remain an attractive investment target if tangled Bakrie Group ownership issues can be overcome. End summary.

GOI WRANGLING INTENSE
- - - - -

12. (U) Rumors about government wrangling were fed by the Indonesia Stock Exchange's (IDX) announcement of its intention to resume trading in Bumi on November 5, only to delay resumption upon government request. Press reporting on the delayed resumption of trading in Bumi shares alleged that IDX management had been overruled by a government official "more senior" than Coordinating Minister for the Economy/Finance Minister Sri Mulyani Indrawati. Reports continued that the decision to lift the suspension on November 6 followed a meeting between President Yudhoyono and Sri Mulyani, when she reportedly threatened to resign. A presidential spokesman denied that rumor, advising that the president did not involve himself in such issues. Sri

Mulyani reportedly had been urging resumption of trading in shares of several Bakrie Group conglomerate companies, which had been suspended since October 7. A November 10 Jakarta Post article characterized the fight over trading resumption in Bumi shares as an "epic battle of capital market integrity and independence" versus the "financially sophisticated, politically connected," and concluded that IDX, Bapepam (the Capital Markets Supervisory Agency) and the Finance Ministry "had shown real courage and grace under fire in their finest hour as regulators."

RESUMED BUMI TRADING: LIMITED IMPACT ON BROADER MARKET

13. (U) On the first day of resumed trading, Bumi's decline weighed on markets, with the Jakarta Composite Index (JCI) falling by 4.27% on November 6, a day most bourses fell in the region. Some 1.9 billion shares of Bumi, equal to more than 10% of total shares, were reported offered for sale, indicating the pent-up demand to sell. While Bumi registered similar declines in share price through November 13, the broader market either closed higher, or registered only small declines (down 0.31% on November 11 and down 0.74% on November 12). (Note: The JCI's 5% decline on November 13 coincided with sharp losses in the region and Bank Indonesia imposition of new foreign currency regulations (septel).)

BAKRIE GROUP PRESSURED TO DISCLOSE DETAILS OF REPORTED OFFER

JAKARTA 00002096 002 OF 003

14. (U) Bapepam Chairman Fuad Rahmany announced November 4 an intention to sanction Bakrie & Bros. if the firm did not make a full public disclosure regarding terms of the reported purchase offer and its plans to resolve repo agreements with brokers (see reftel) during the week of November 3. Meanwhile, Bakrie & Bros. had requested that trading in shares remain suspended for an additional 21 to 28 days until Bumi's purchase could be completed. (Note: Northstar Pacific Partners manager Patrick Walujo told press on November 10 that the conditional sales agreement, signed October 31, was exclusive and gave Northstar Pacific Partners 28 days to carry out due diligence. End note.)

SUSPENSION IN TRADING WEIGHED ON INVESTING PUBLIC, SOME BROKERS

15. (U) Local press had reported that the extended halt in trading of Bakrie Group-owned companies had become increasingly burdensome to other Bumi shareholders who wanted to sell. Many shareholders also reportedly faced margin calls, as the Bumi share prices had dropped sharply (32% on October 6) before trading was suspended. Many of those shareholders and their brokers wanted trading to resume. In consultations with the IDX board and Bapepam, the Association of Mutual Fund Managers, representing funds valued at IDR 90 trillion with a large numbers of investors, reportedly favored continued trading of Bumi shares. The brokerage community was split, with 48 supporting suspension of trading, 7 supporting continued trading and 22 abstaining, according to the daily Kompas (November 11).

16. (U) A number of investor community representatives and brokers had become increasingly vocal about the harm being done to the reputation of the IDX in the eyes of both domestic and foreign investors as the suspension in trading continued. Perceived reputational damage increased following the November 5 government intervention to delay a resumption in trading.

WHILE OTHERS FAVORED CONTINUED SUSPENSION

¶7. (U) However, other firms and individuals which had entered into repurchase agreements with Bakrie & Bros., in which they had bought Bumi shares with the agreement of Bakrie & Bros. to repurchase the shares, feared a resumption in trading would jeopardize Bumi's possible sale and harm their chances of being repaid. While the press reported some brokers to be in danger of falling below minimum mandatory capital requirements as a result of their Bumi-repo exposure, Bapepam Chair Rahmany publicly stated that only five brokerage firms had significant exposure to Bumi repos and the exposure was not as large as previously reported.

LIST OF POSSIBLE PURCHASERS GROWS

¶8. (U) During the last month, there have been numerous reports about rumored buyers for Bumi. On November 1, a Bakrie & Bros. spokesman announced that Bakrie & Bros. had accepted a purchase offer from Northstar Pacific. Northstar Pacific Partners and TPG are partners in a joint venture private equity fund ("Northstar Equity Partners") with more than \$300 million in assets reported under management. The firm is run by Patrick Walujo, described as a former Goldman Sachs investment banker. Press reports cited one investment banker as characterizing this deal as "an agreement to agree, with negotiations at a preliminary stage," and some observers construed the announcement as signaling an invitation for other parties to launch competing bids. On November 2, state-owned mining company PT Tambang Batubara Bukit Asam also said it had joined a consortium to purchase Bumi.

¶9. (U) Meanwhile, Philippines'-based San Miguel Corp., was reported to have confirmed its interest in preparing a

JAKARTA 00002096 003 OF 003

separate bid to acquire 51% of Bumi. Other rumored potential buyers include U.S. hedge fund Farallon Capital, India's Tata Group, and Indonesian investment bank PT Renaissance Capital. Previously rumored potential buyers, including state-owned PT Aneka Tambang, said they were not a part of the Northstar consortium, according to press reports.

¶10. (SBU) Despite the current lack of clarity regarding the ultimate disposition of Bumi and of the Bakrie Group's efforts to overcome its financial difficulties, the apparent interest of U.S.-linked private equity is a notable development. While many foreign investors have chosen to exit the Indonesian market at a time of increased risk aversion, Bumi's large thermal coal resources are an attractive investment target, if tangled Bakrie Group ownership issues can be unwound sufficiently to enable the Group to deliver its 35% stake in Bumi free and clear to one or more interested buyers.

HUME